

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Howell Carnegie District Library	County Livingston
Fiscal Year End 06/30/2006	Opinion Date 08/05/06	Date Audit Report Submitted to State December 21, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

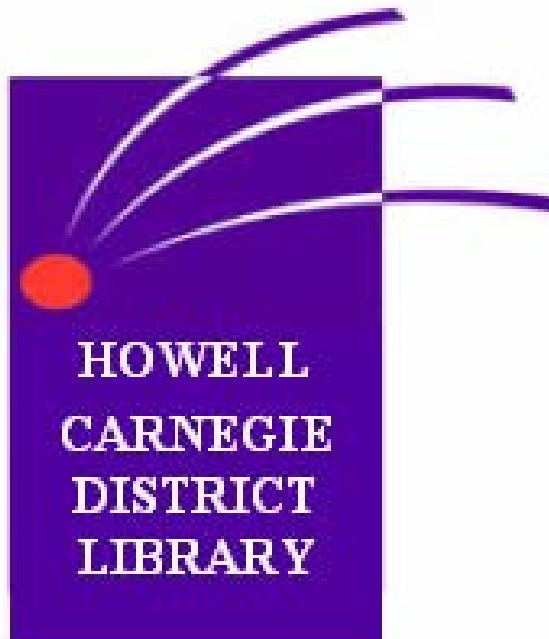
Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) The Rehmann Group		Telephone Number 1-248-952-5000		
Street Address 5750 New King Street, Suite 200		City Troy	State MI	Zip 48098
Authorizing CPA Signature Thomas E. Darling, CPA <small>Digitally signed by Thomas E. Darling, CPA DN: cn=Thomas E. Darling, CPA, c=US, o=Rehmann Robson, email=tdarling@rehmann.com Date: 2006.12.21 17:51:07 -0500</small>		Printed Name Thomas E. Darling, CPA		License Number A246550



**ANNUAL
FINANCIAL REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2006**

**HOWELL CARNEGIE DISTRICT LIBRARY
HOWELL, MICHIGAN**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2006**

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

August 5, 2006

To the Board of Trustees
Howell Carnegie District Library
Howell, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the ***Howell Carnegie District Library (the "Library")***, as of and for the year ended June 30, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the ***Howell Carnegie District Library***, as of June 30, 2006, and the respective changes in financial position, thereof and the budgetary comparisons of the General Fund and the Contribution and Memorials Fund for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2006, on our consideration of the **Library's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3-11 and the Defined Benefit Pension Plan Trust information on page 31 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Howell Carnegie District Library (the "Library"), we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The most significant event for the Howell Carnegie District Library's financial picture was that the bond issue debt was paid off in May 2006.
- In April 2006 the library purchased property for future additional parking.
- The Library proposed a bond and millage increase in the May 2006 election to expand the library building and services. Building expansion is possible because of improvements in the sewer capacity around the library as part of the Clinton street reconstruction project scheduled for 2006 through 2007. Neither the bond issue nor the millage increase passed.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library financial statements. The Library basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Library finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Library's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

The government-wide financial statements include only the Library itself (known as the *primary government*), and has no legally separate component units for which the Library is financially accountable.

The government-wide financial statements can be found in the last column on pages 12 and 14 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Library are considered governmental funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Library maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Contributions and Memorials Fund, Debt Service Fund, Capital Project Equipment Fund, and Endowment Fund, all of which are considered to be major funds.

The Library adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Refer to the financial statement index for basic governmental fund financial statements.

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Refer to the financial statement index for notes to the financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis and required pension information. Refer to the financial statement index for required supplementary information regarding the pension information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Library, assets exceeded liabilities by \$7,106,669 at the close of the most recent fiscal year.

By far the largest portion of the Library net assets reflects its investment in capital assets (e.g., buildings, equipment, furniture and fixtures and materials), less any related debt used to acquire those assets that is still outstanding. The Library uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the Library investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

Library Net Assets

	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 2,260,627	\$ 2,792,974
Capital assets, net	<u>5,097,600</u>	<u>4,623,811</u>
Total assets	<u>7,358,227</u>	<u>7,416,785</u>
 Long-term liabilities outstanding	 154,986	 146,063
Other liabilities	<u>96,572</u>	<u>613,822</u>
Total liabilities	<u>251,558</u>	<u>759,885</u>
 Net assets:		
Invested in capital assets, net		
of related debt	5,097,600	4,103,811
Restricted	279,459	459,062
Unrestricted	<u>1,729,610</u>	<u>2,094,027</u>
 Total net assets	 <u>\$ 7,106,669</u>	 <u>\$ 6,656,900</u>

Net assets at year-end have been restricted primarily by funding sources for capital projects and permanent trust funds. Of the net asset balance at year end, 72% is invested in capital assets net of related debt, 2.1% is restricted for endowments, .6% is restricted for debt service, 1.3% for other purposes and 24% is unrestricted and available for general Library operations.

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

Library Changes in Net Assets

	<u>2006</u>	<u>2005</u>
Revenue:		
Program revenue:		
Charges for services	\$ 11,796	\$ 11,787
Operating grants and contributions	256,400	257,386
General revenue:		
Property taxes	1,875,975	1,953,148
State shared revenues	49,150	32,520
Other	97,183	41,939
Total revenue	<u>2,290,504</u>	<u>2,296,780</u>
Expenses:		
Wages and benefits	1,059,816	1,036,462
Program materials	79,447	499
Operating supplies	149,750	192,899
Building, grounds and maintenance	178,484	155,236
Contracted services	18,599	19,730
Interest on long-term debt	24,551	53,209
Other expenditures	2,924	15,178
Expendable capital	-	23,719
Depreciation	327,164	321,669
Total expenses	<u>1,840,735</u>	<u>1,818,601</u>
Increase in net assets	449,769	478,179
Net assets, beginning of year	<u>6,656,900</u>	<u>6,178,721</u>
Net assets, end of year	<u><u>\$ 7,106,669</u></u>	<u><u>\$ 6,656,900</u></u>

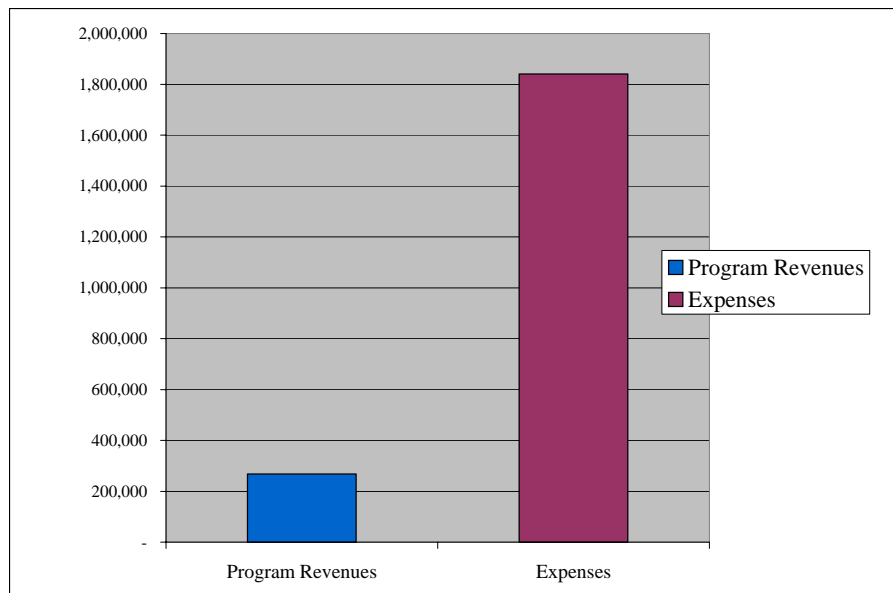
HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental activities. The Library's net assets increased by \$449,769, a 6.7% increase from the prior year. Key elements of this increase are as follows:

- Overall total revenues remained fairly constant with prior years, a decrease of approximately \$20,000 or less than 1%.
- Program revenues decreased by approximately \$1,000 compared to prior year.
- General revenues (including property taxes and state shared revenues) decreased by approximately \$5,000 as compared to prior year. Of this decrease, property taxes decreased approximately \$77,000 which was offset by an increase in other revenues.
- Total expenditures increased by approximately \$22,000 or approximately 1.2% over the prior year.

Expenses and Program Revenues - Governmental Activities

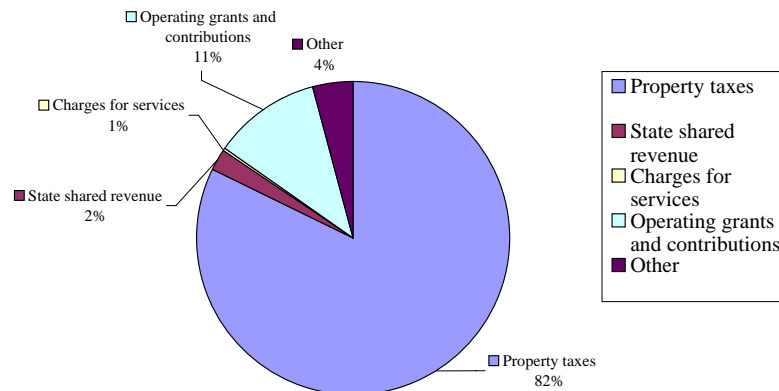


Program revenues are charges for services and contributions. The excess of program expenses (approximately \$1,841,000) over program revenues (approximately \$268,000) was offset by general revenues (i.e. property taxes, state shared revenues and other non-program revenues) in the amount of approximately \$2,022,000.

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues by Source – Governmental Activities



Financial Analysis of the Government's Funds

As noted earlier, the Library uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Library *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Library financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Library's governmental funds reported combined ending fund balance of \$2,199,597, a decrease of \$527,268 compared with prior year. This decrease is primarily attributable to the Library's purchase of land for future parking in the amount of \$550,174.

The general fund is the chief operating fund of the Library. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,493,862. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 66 percent of total general fund expenditures.

A large portion of the unreserved operating fund balance is used to finance library operations from July through December each fiscal year as the library has no major revenue source until tax revenue is collected in December.

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

General Fund Budgetary Highlights

Budget changes between original and amended budget were relatively minor with the only change being in the area of capital outlay expenditures in the amount of \$450,000 to accommodate the land purchase. Total actual revenue exceeded budgeted revenue by \$41,829. Total actual expenditures were under budgeted amounts by \$131,054.

Capital Asset and Debt Administration

Capital assets. The Library's investment in capital assets as of June 30, 2006, amounts to \$5,097,600 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment, furniture and fixtures, library materials, and construction in progress. The total increase in the Library's investment in capital assets for the current fiscal year as compared to the prior year was 10 percent.

Major capital asset events during the current fiscal year included the following:

- Purchase of land for additional future parking in the amount of \$550,174.

Library Capital Assets (net of depreciation)

	<u>2006</u>	
Land	\$ 550,174	
Buildings and improvements		3,602,234
Equipment	100,889	
Furniture and fixtures	351,736	
Library materials	466,967	
CIP	<u>25,600</u>	
Total capital assets, net	<u>\$ 5,097,600</u>	

Additional information on the Library capital assets can be found in note III-C of this report.

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-term debt

The library made the final installment payment of \$520,000 on its 1994 refunding general obligation bonds during in May of the fiscal year resulting in no outstanding general obligation debt at year end.

Additional information on the Library long-term debt can be found in note III-D of this report.

Economic Factors and Next Year's Budgets and Rates

- The 2006-07 Budget document has tax revenues estimated to increase about 8%, but almost all other major revenue sources are estimated to be lower than the 2005-06 fiscal year. The total estimated increase in 2006-07 general fund revenues over the estimated 2005-06 actual general fund revenues is 1%.
- 2006-07 Budgeted expenditures for salaries and wages is 4% higher than the 2005-06 budgeted expenditures for salaries and wages. A 2% wage increase was granted in July 2006. The rest of the increase is to accommodate the increase in the minimum wage that will go into effect in Michigan in October 2006 as well as to give a 1% increase to employees who have not reached the midpoint of their pay grade in January 2007.
- \$143,044 for the special strategic plan projects next year are all being funded by reserve funds.

Requests for Information

This financial report is designed to provide a general overview of the Library finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, 314 West Grand River, Howell, Michigan 48843.

BASIC FINANCIAL STATEMENTS

HOWELL CARNEGIE DISTRICT LIBRARY
Howell, Michigan

**STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2006**

	<u>General Fund</u>	<u>Contributions and Memorials</u>	<u>Debt Service Fund</u>	<u>Capital Project Equipment</u>
ASSETS				
Cash and investments	\$ 1,358,980	\$ 93,484	\$ 4,793	\$ 372,762
Due from other governmental units	189,077	-	-	-
Prepays	6,623	-	-	-
Capital assets, net of accumulated depreciation	-	-	-	-
Total assets	<u><u>\$ 1,554,680</u></u>	<u><u>\$ 93,484</u></u>	<u><u>\$ 4,793</u></u>	<u><u>\$ 372,762</u></u>
LIABILITIES				
Accounts payable	40,071	6,835	-	-
Accrued expenses	14,124	-	-	-
Long-term debt:				
Due within one year	-	-	-	-
Due after one year	-	-	-	-
Total liabilities	<u><u>54,195</u></u>	<u><u>6,835</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
FUND BALANCES/NET ASSETS				
Fund balances:				
Reserved for:				
Prepays	6,623	-	-	-
Capital additions	-	-	-	-
Archives, programs and collections	-	57,444	-	-
Nonexpendable endowments	-	-	-	-
Debt service	-	-	4,793	-
Other purposes	-	-	-	-
Unreserved:				
Designated - capital additions	312,900	-	-	-
Undesignated reported in:				
General fund	1,180,962	-	-	-
Special revenue funds	-	29,205	-	-
Capital project fund	-	-	-	372,762
Permanent fund	-	-	-	-
Total fund balances	<u><u>1,500,485</u></u>	<u><u>86,649</u></u>	<u><u>4,793</u></u>	<u><u>372,762</u></u>
Total liabilities and fund balances	<u><u>\$ 1,554,680</u></u>	<u><u>\$ 93,484</u></u>	<u><u>\$ 4,793</u></u>	<u><u>\$ 372,762</u></u>
Net assets:				
Invested in capital assets				
Restricted for:				
Capital additions				
Endowments - nonexpendable				
Endowments - expendable				
Debt service				
Other purposes				
Unrestricted				
Total net assets				

The accompanying notes are an integral part of these financial statements.

<u>Endowment</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
\$ 234,908	\$ 2,064,927	\$ -	\$ 2,064,927
-	189,077	-	189,077
-	6,623	-	6,623
-	-	5,097,600	5,097,600
<u>\$ 234,908</u>	<u>\$ 2,260,627</u>	<u>5,097,600</u>	<u>7,358,227</u>

-	\$ 46,906	-	46,906
-	14,124	-	14,124
-	-	35,542	35,542
-	-	154,986	154,986
-	<u>61,030</u>	<u>190,528</u>	<u>251,558</u>

-	6,623	(6,623)	-
3,197	3,197	(3,197)	-
10,975	68,419	(68,419)	-
149,233	149,233	(149,233)	-
-	4,793	(4,793)	-
16,511	16,511	(16,511)	-
-	312,900	(312,900)	-
-	1,180,962	(1,180,962)	-
-	29,205	(29,205)	-
-	372,762	(372,762)	-
54,992	54,992	(54,992)	-
<u>234,908</u>	<u>2,199,597</u>	<u>(2,199,597)</u>	<u>-</u>
<u>\$ 234,908</u>	<u>\$ 2,260,627</u>		

5,097,600	5,097,600
3,197	3,197
149,233	149,233
30,683	30,683
4,793	4,793
91,553	91,553
1,729,610	1,729,610
<u>\$ 7,106,669</u>	<u>\$ 7,106,669</u>

HOWELL CARNEGIE DISTRICT LIBRARY
Howell, Michigan

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS**

JUNE 30, 2006

Fund balances - total governmental funds	\$ 2,199,597
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Amounts reported for *governmental activities* in the statement of activities are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	7,683,089
Deduct: accumulated depreciation	(2,585,489)

Certain liabilities, such as bonds payable, accrued interest on bonds payable and accrued compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

Deduct:	
Accrued compensated absences	<u>(190,528)</u>

Net assets of governmental activities	<u><u>\$ 7,106,669</u></u>
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The accompanying notes are an integral part of these financial statements.

HOWELL CARNEGIE DISTRICT LIBRARY
Howell, Michigan

**STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>General Fund</u>	<u>Contributions and Memorials</u>	<u>Debt Service Fund</u>	<u>Capital Project Equipment</u>
EXPENDITURES/EXPENSES				
Wages and benefits	\$ 1,038,254	\$ -	\$ -	\$ -
Program materials	240,898	1,502	-	-
Operating supplies	148,108	1,642	-	-
Building, grounds and maintenance	178,484	-	-	-
Contracted services	18,599	-	-	-
Other expenditures	-	2,924	-	-
Capital outlay	607,180	16,280	-	21,562
Depreciation	-	-	-	-
Debt service:				
Principal	-	-	520,000	-
Interest	-	-	29,359	-
Total expenditures/ expenses	<u>2,231,523</u>	<u>22,348</u>	<u>549,359</u>	<u>21,562</u>
PROGRAM REVENUE				
Charges for services	11,796	-	-	-
Fines and forfeitures	211,383	-	-	-
Contributions and memorials	<u>-</u>	<u>41,567</u>	<u>-</u>	<u>-</u>
Total program revenue	<u>223,179</u>	<u>41,567</u>	<u>-</u>	<u>-</u>
Net program expense				
GENERAL REVENUE				
Property taxes	1,480,280	-	395,695	-
State shared revenue	49,150	-	-	-
Investment earnings	64,638	2,367	5,789	15,015
Proceeds/loss from sale of capital assets	-	932	-	-
Other revenues	<u>6,008</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total general revenues	<u>1,600,076</u>	<u>3,299</u>	<u>401,484</u>	<u>15,015</u>
Net change in fund balances	(408,268)	22,518	(147,875)	(6,547)
Change in net assets	-	-	-	-
Fund balance/net assets, beginning of year	<u>1,908,753</u>	<u>64,131</u>	<u>152,668</u>	<u>379,309</u>
Fund balance/net assets, end of year	<u><u>\$ 1,500,485</u></u>	<u><u>\$ 86,649</u></u>	<u><u>\$ 4,793</u></u>	<u><u>\$ 372,762</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Endowment</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
\$ -	\$ 1,038,254	\$ 21,562	\$ 1,059,816
-	242,400	(162,953)	79,447
-	149,750	-	149,750
-	178,484	-	178,484
-	18,599	-	18,599
-	2,924	-	2,924
-	645,022	(645,022)	-
-	-	327,164	327,164
-	520,000	(520,000)	-
-	29,359	(4,808)	24,551
-	2,824,792	(984,055)	1,840,735
-	11,796	-	11,796
-	211,383	-	211,383
3,450	45,017	-	45,017
3,450	268,196	-	268,196
			1,572,539
-	1,875,975	-	1,875,975
-	49,150	-	49,150
9,454	97,263	-	97,263
-	932	(7,020)	(6,088)
-	6,008	-	6,008
9,454	2,029,328	(7,020)	2,022,308
12,904	(527,268)	527,268	-
-	-	449,767	449,769
222,004	2,726,865	3,930,035	6,656,900
<u>\$ 234,908</u>	<u>\$ 2,199,597</u>	<u>\$ 4,907,070</u>	<u>\$ 7,106,669</u>

HOWELL CARNEGIE DISTRICT LIBRARY

Howell, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$ (527,268)
--	--------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	645,021
Add: capitalized materials	162,952
Deduct: depreciation expense	(327,164)
Deduct: book basis in capital asset disposals	(7,020)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: bond principal payments	520,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: change in accrued interest payable	4,810
Deduct: increase in the accrual for compensated absences	(21,562)

Change in net assets of governmental activities	<u>\$ 449,769</u>
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The accompanying notes are an integral part of these financial statements.

HOWELL CARNEGIE DISTRICT LIBRARY**Howell, Michigan****GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
REVENUES				
Property taxes	\$ 1,498,000	\$ 1,498,000	\$ 1,480,280	\$ (17,720)
State shared revenue	38,255	38,255	49,150	10,895
Charges for services	9,600	9,600	11,796	2,196
Fines and forfeitures	195,000	195,000	211,383	16,383
Investment earnings	38,600	38,600	64,638	26,038
Other revenue	1,971	1,971	6,008	4,037
Total revenues	<u>1,781,426</u>	<u>1,781,426</u>	<u>1,823,255</u>	<u>41,829</u>
EXPENDITURES				
Salaries and wages	854,500	854,500	832,909	21,591
Employee benefits	152,100	152,100	142,040	10,060
Payroll taxes	65,370	65,370	63,305	2,065
Program materials	254,693	254,693	240,898	13,795
Operating supplies	159,385	159,385	148,108	11,277
Building, grounds and maintenance	171,200	181,600	178,484	3,116
Contracted services	25,300	25,300	18,599	6,701
Other expenditures	30,000	19,600	-	19,600
Capital outlay	200,029	650,029	607,180	42,849
Total expenditures	<u>1,912,577</u>	<u>2,362,577</u>	<u>2,231,523</u>	<u>131,054</u>
Net change in fund balances	(131,151)	(581,151)	(408,268)	(89,225)
Fund balances, beginning of year	<u>1,908,753</u>	<u>1,908,753</u>	<u>1,908,753</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,777,602</u>	<u>\$ 1,327,602</u>	<u>\$ 1,500,485</u>	<u>\$ (89,225)</u>

The accompanying notes are an integral part of these financial statements.

HOWELL CARNEGIE DISTRICT LIBRARY
Howell, Michigan

CONTRIBUTIONS AND MEMORIALS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget- Positive (Negative)</u>
REVENUES				
Contributions and memorials	\$ 79,100	\$ 79,100	\$ 41,567	\$ (37,533)
Investment earnings	1,300	1,300	2,367	1,067
Total revenues	<u>80,400</u>	<u>80,400</u>	<u>43,934</u>	<u>(36,466)</u>
EXPENDITURES				
Program materials	1,500	1,500	1,502	(2)
Operating supplies	3,500	3,500	1,642	1,858
Capital outlay	<u>30,959</u>	<u>30,959</u>	<u>16,280</u>	<u>14,679</u>
Total expenditures	<u>42,198</u>	<u>42,198</u>	<u>22,348</u>	<u>19,850</u>
Net change in fund balances	38,202	38,202	21,586	(16,616)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	<u>-</u>	<u>-</u>	<u>932</u>	<u>932</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	38,202	38,202	22,518	(15,684)
Fund balances, beginning of year	<u>64,131</u>	<u>64,131</u>	<u>64,131</u>	<u>-</u>
Fund balances, end of year	<u>\$ 102,333</u>	<u>\$ 102,333</u>	<u>\$ 86,649</u>	<u>\$ (15,684)</u>

The accompanying notes are an integral part of these financial statements.

HOWELL CARNEGIE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Howell Carnegie District Library (“the Library”) was organized in 1988 under the provisions of Public Act 164 of 1955, and is considered a local governmental unit. The Howell Carnegie District Library officially amended its Articles of Incorporation to be known as the Howell Carnegie District Library in March of 2002.

The District Library’s borders encompass the Library of Howell and portions of the following townships included in the Howell Public School District in 1988; the Townships of Brighton, Cohoctah, Deerfield, Genoa, Hamburg, Handy, Howell, Iosco, Marion and Oceola. Properties in each governmental unit are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due February 14 with the final collection date of February 28 before they are added to the county tax rolls.

The Library has determined that no entities should be consolidated into its basic financial statements as component units. The criteria for including a component unit include entities for which the government is considered to be financially accountable. Therefore, the reporting entity consists only of the primary government.

B. Library-Wide and Fund Financial Statements

The Library-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements.

HOWELL CARNEGIE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes received, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following major governmental funds:

The *General Fund* is the Library's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Contributions and Memorials Fund* accounts for resources accumulated that are restricted to expenditures identified by the contributor..

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the Library.

The *Capital Project-Equipment Fund* accounts for the resources and major capital equipment purchases of the Library.

The Endowment Fund accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support specific library programs.

HOWELL CARNEGIE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Library-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Library has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the Library-wide financial statements.

Amounts reported as program revenues include 1) charges to individual customers, and 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed. The exception to this policy lies in the area of the endowment fund in which available spendable resources have not been appropriated.

D. Assets, Liabilities, and Net Assets

1. Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Library to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury and agencies, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

HOWELL CARNEGIE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

2. *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). There were no such interfund loans outstanding as of year-end. All other outstanding balances between funds are reported as “due to/from other funds.”

3. *Capital Assets*

Capital assets, which include buildings, equipment, furniture and fixtures, and materials are reported in the Statement of Net Assets column in the basic financial statements. Capital assets are defined by the Library as assets with an initial, individual cost of more than \$2,500, and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15-50
Equipment	5-10
Furniture and fixtures	5-20
Materials	3-7

4. *Compensated Absences*

The Library allows employees to accumulate unused compensated absences. The Library allows employees up to 720 hours of sick time. Vacation time lapses on the employees anniversary date one year from the date earned. The Library’s liability for compensated absences is included in long-term debt in the government-wide financial statements.

5. *Long-Term Obligations*

HOWELL CARNEGIE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

In the Library-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted, on a basis consistent with generally accepted accounting principles (GAAP), for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with GAAP, and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Board. The budget for the General Fund is adopted on a categorical level, and the budgets for Special Revenue Funds are adopted on a fund basis.

HOWELL CARNEGIE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

B. Excess Expenditures Over Appropriations

During the year ended June 30, 2006, there were no expenditures that were in excess of the amounts appropriated at the legal level of control.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

	Cash and Cash Equivalents	Investments	Total
Statement of Net Assets			
Deposits	\$ 935,316	\$ -	\$ 935,316
Petty cash	257	-	257
Commercial paper	<u>-</u>	<u>1,129,354</u>	<u>1,129,354</u>
Total	<u>\$ 935,573</u>	<u>\$ 1,129,354</u>	<u>\$ 2,064,927</u>

Michigan law authorizes the Library to deposit and invest in:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
2. Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

HOWELL CARNEGIE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

4. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
5. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
6. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The Library chooses to disclose its investments by specifically identifying each. As of year-end, the Library had the following deposits and investments:

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Bank deposits and money markets	n/a	\$ 935,316	n/a
Daimler Chrysler commercial paper	< 1 Year	<u>1,129,354</u>	A1/P1
		<u>\$ 2,064,670</u>	

Investment and Deposit Risk

Interest Rate Risk - State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above. The Library's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates for investments, as applicable, are noted above.

Credit Risk - State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year-end.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. As of year-end, \$835,316 of the \$935,316 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

HOWELL CARNEGIE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Library does not have a policy for investment custodial credit risk. The Library's total investments of \$1,129,354 are in short term commercial paper rated A-1 by a national rating agency. These investments are in short-term investment pools that are registered with the Securities Exchange Commission (the "SEC"). The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The short-term investments are not required to be classified according to custodial credit risk since they are not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk - State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of State law on concentration of credit risk. All investments held at year-end are reported above.

B. Receivables

Receivables as of year-end for the Library's individual major funds are considered 100% collectable and are to be collected within one year. Accordingly, no allowance for uncollectible receivables has been established.

C. Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not depreciated:				
Land	\$ -	\$ 550,174	\$ -	\$ 550,174
Construction in progress	-	25,600	-	25,600
Total capital assets not being depreciated	-	575,774	-	575,774

	Beginning Balance	Increases	Decreases	Ending Balance
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HOWELL CARNEGIE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

Capital assets being depreciated				
Buildings and improvements				\$
	\$ 4,487,619	\$ 5,440	\$ -	4,493,059
Equipment	834,330	12,355	(17,770)	828,915
Furniture and fixtures	589,740	2,894	(9,300)	583,334
Materials	1,024,750	211,514	(34,257)	1,202,007
Total capital assets being depreciated	6,936,439	232,203	(61,327)	7,107,315
Less accumulated depreciation				
Buildings and improvements	(796,689)	(94,139)	-	(890,828)
Equipment	(711,823)	(33,970)	17,770	(728,023)
Furniture and fixtures	(198,791)	(35,086)	2,280	(231,597)
Materials	(605,329)	(163,969)	34,257	(735,041)
Total accumulated depreciation	(2,312,632)	(327,164)	54,307	(2,585,489)
Total capital assets being depreciated, net	4,623,807	(94,961)	(7,020)	4,521,826
Governmental activities capital assets, net	<u>\$ 4,623,807</u>	<u>\$ 480,813</u>	<u>\$ (7,020)</u>	<u>\$ 5,097,600</u>

D. Long Term Debt

In 1994 the Library issued general obligation bonds to refund general obligation debt originally issued in 1989 for the construction and equipping of the Library's facility. General obligation bonds are direct obligations and pledge the full faith and credit of the Library. The refunding bonds were issued as a 12 year serial bond with varying amounts of principal due and interest ranging from 3.6% to 5.55% due each year.

Changes in long-term debt

Long-term liability activity for the year ended June 30, 2006, was as follows. Compensated absences are typically liquidated through sources from the general fund.

<u>Beginning</u>	<u>Ending</u>	<u>Due</u>
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HOWELL CARNEGIE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

	Balance	Additions	Reductions	Balance	Within One Year
Bonds payable	\$ 520,000	\$ -	\$ (520,000)	\$ -	\$ -
Compensated absences	168,966	21,562	-	190,528	35,542
Long-term liabilities	\$ 688,966	\$ 21,562	\$ (520,000)	\$ 190,528	\$ 35,542

IV. OTHER INFORMATION

A. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and distribution of assets; errors and omissions; injuries to employees and natural disasters. The Library has purchased commercial insurance for comprehensive liability, motor vehicle physical damage and property and crime coverage through the Michigan Municipal League (MML). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

All claims of the Library, after meeting the deductible requirements, are paid by MML. MML is responsible for any claims in excess of deductible amounts up to a maximum limit of \$5,000,000. The Library's policy is to recognize the annual premium cost as expenditures. The expenditures for the year ended June 30, 2006 were \$22,278.

The Library is also a member of the Michigan Municipal Workers Compensation Fund. Premiums from participants are combined to provide all members with coverage for claims. The premiums and interest thereon are used to pay claims, administrative expenses and to purchase reinsurance to protect the fund from exceptionally large losses. In the event of a deficit in a fund year, assessments could be made against the members. No such assessments have been made against the Library in any of the past three fiscal years. The Library's policy is to recognize the annual premium cost as expenditures. The expenditures for the year ended June 30, 2006 were \$327.

B. Defined Benefit Pension Plan

The following brief description of the Library's Employee's Retirement Plan (the "Plan") is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

1. Plan description

HOWELL CARNEGIE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

The Library's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS.

The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling 800.767.6377.

2. Eligibility

The Plan provides eligible participants with retirement benefits. All retirement benefits fully vest at age 60 with ten years of credited service. Employees may retire with reduced benefits at age 55 with 15 years of credited service and age 50 with 25 years of credited service. Annual retirement benefits are payable monthly in an amount equal to 2.0% of the retirees final average compensation.

At December 31, 2005 the Plan Participants consisted of:

Retirees and beneficiaries currently receiving	
benefits, terminated vested not receiving	
benefits and long term disabled employees	3
Current employees	<u>9</u>
Total	<u>12</u>

HOWELL CARNEGIE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

3. Required contributions

The Library is required to contribute at an actuarially determined rate, which was 10.27% for the year ended June 30, 2006. Employees are currently not required to contribute to the Plan. The contribution requirements of the Library are established, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Library, depending on the MERS contribution program adopted by the Library.

4. Summary of significant accounting policies

a. Method used to value assets

The actuarial value of assets is determined on the basis of a method that calculates expected investment income at the valuation rate of return and adds a portion of the difference between the expected investment income and actual investment income earned on a market value basis. The difference in investment income between expected return and market return is recognized over a 5-year period at the rate of 20% per year.

b. Annual pension cost and net pension obligation

The Library's annual pension cost and net pension obligation to the pension plan for the current year was as follows:

	June 30, 2006
Annual required contribution/pension cost	\$ 37,650
Contribution made	(37,650)
Increase (decrease) in net pension obligation	-
Net pension obligation, beginning of year	-
Net pension obligation, end of year	\$ -

The annual required contribution for the current year was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. Benefits are funded on a level percentage of earnings from each participant's date of participation to assumed retirement date. The effect of plan improvements and changes in assumptions are amortized over 30 years. The actuarial assumptions included (a) 8% investment rate of return on the investment, compounded annually and (b) projected salary increases of 4.5% per year compounded annually. There is no assumption for cost of living or inflationary adjustments. Concentrations of

HOWELL CARNEGIE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

investments in a single organization of 5% or more cannot be determined due to the pooled nature of the fund.

c. Trend information

Three Year Trend Information

<u>Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	\$35,249	100%	-
6/30/05	43,492	100%	-
6/30/06	37,650	100%	-

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

HOWLL CARNEGIE DISTRICT LIBRARY
Howell, Michigan

REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED

DEFINED BENEFIT PENSION PLAN TREND INFORMATION

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/01	\$ 381,136	472,370	91,234	81%	264,525	34%
12/31/02	415,314	575,738	160,424	72%	310,771	52%
12/31/03	473,470	660,975	187,505	72%	360,586	52%
12/31/04	530,856	636,295	105,439	83%	351,463	30%
12/31/05	601,542	754,427	152,885	80%	390,422	39%

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

August 5, 2006

To the Board of Trustees
Howell Carnegie District Library
Howell, Michigan

We have audited the financial statements of the governmental activities and each major fund of the ***Howell Carnegie District Library, Howell Michigan*** (the "Library") as of and for the year ended June 30, 2006, which collectively comprise the ***Library's*** basic financial statements and have issued our report thereon dated August 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered ***Library's*** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Library's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contract and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Library in a separate letter dated August 5, 2006.

This report is intended solely for the information and use of the management and Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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August 5, 2006

To The Howell Carnegie District Library
Howell, Michigan

In planning and performing our audit of the financial statements of the ***Howell Carnegie District Library***, for the year ended June 30, 2006, we considered the Library's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated August 5, 2006, on the financial statements of the ***Howell Carnegie District Library***.

The accompanying comments and recommendations are intended solely for the information and use of the audit committee, management, and others within the organization and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Library personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the Library in implementing the recommendations.

We would like to thank the staff and management of the ***Howell Carnegie District Library*** for their assistance and cooperation in completing the audit.

A.) EXPENDITURES OVER BUDGETED APPROPRIATIONS

During our audit procedures we noted that actual appropriations were in excess of budgeted amount. In accordance with current State of Michigan guidelines, this would be considered a violation of Public Act 2.

We would recommend that management monitor and update budgeted amounts through board approval at least on a quarterly basis.

B.) TIME SHEET AUTHORIZATIONS AND PAID-TIME OFF LOGS

During our audit procedures we noted that employees did not authorize hours worked on the Library's standard time logs. In addition we noted that the standard time logs contained the vested paid time off vested hours that may be vulnerable to employee manipulation.

We would recommend that employees initial the Library's standard time logs to indicate approval of hours worked. In addition, we would recommend that the running vested paid time off also be tracked in a system that is separate from employee access and reconciled to the amounts reported on the standard time log on a periodic basis.

We believe that these procedures will help improve the Library's internal control over employees being paid the correct number of hours both for time worked and paid time off.